

# **Energy, Jobs and Progress for Ohio Legislation**

Senate Energy and Public Utilities Committee

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Chairman Schuler, members of the committee, thank you for giving us the opportunity to discuss Governor Ted Strickland's Energy, Jobs and Progress for Ohio legislation today.

In an effort to develop a comprehensive, long-term approach to the challenges of supplying reliable and affordable power, this legislation came about after many hours of discussions with representatives of all key stakeholder groups including electric utilities, environmental and consumer advocates, customers of all sizes, along with business and political leaders.

The legislation before you today accomplishes three integrally related objectives that are essential for Ohio's economy.

First, it ensures price stability and an adequate, reliable supply of electricity. It is a carefully crafted hybrid approach that recognizes how we generate, distribute and price electricity. This is particularly important since Ohio is fifth among the states in overall energy consumption and spends more than 30 billion dollars on energy every year. Electricity is the single biggest component of our energy use.

Second, it opens the door to the jobs of the future through the establishment of advanced energy and energy efficiency portfolio standards. Ohio possesses a wealth of resources to invent, build and deploy the next energy technologies. From our great research universities to our industrial base to our skilled workforce, we have the key building blocks for a new economic focus on the energy technologies of the future. This bill will send a clear signal that Ohio is ready to use these resources to create tens of thousands of new jobs.

Third, it empowers Ohio consumers by making available technologies that will allow all customer classes to better understand their use of electricity, its cost and how to control it as well as modernizing the electric grid so that we can count on having the electricity we need.

However, before explaining the proposed legislation further, it is important to give background about the electric industry and recap where we have been since Ohio's electric restructuring legislation was signed into law back in 1999.

The electric industry consists of three main components: generation, transmission and distribution. As many of you know, Senate Bill 3 (SB 3) was signed into law in 1999 and allowed for competition in electric generation. SB 3 also provided a five-year market development period lasting from Jan. 1, 2001 to Dec. 31, 2005. During this period, rates were frozen in order to allow a competitive wholesale market to take shape.

Ohio moved toward restructuring the electric industry with the belief that competitive market forces would develop and hold down prices. Since electric choice began in 2001, the PUCO has been working to facilitate a competitive electric market in Ohio. However, it is widely acknowledged that a fully competitive market had not developed. As a result, the PUCO developed plans to secure the future of Ohio's retail electric market.

As the end of the market development period neared, the PUCO grew concerned that the limited number of competitive electric suppliers and low degree of market activity were an indication that an immediate shift to market-based rates in 2006 would not be in the best interest of customers. To minimize the effects of rate "sticker shock" and gradually transition customers to market-based rates, the PUCO worked with Ohio's electric utilities to develop rate stabilization plans (RSPs). These plans, coupled with other recent rate modifications, eliminate market uncertainty and provide customers with stable, predictable rates.

As many of you may recall, the Ohio Legislature supported the establishment of RSPs in a report issued in October 2003 encouraging the PUCO to "continue to take the necessary steps ... to ensure that a healthy competitive market is in place before full electric competition begins." RSPs are in place for American Electric Power (AEP), Dayton Power and Light (DP&L), Duke Energy Ohio and FirstEnergy. The RSPs have been

challenged at the Ohio Supreme Court and while parts of these RSPs have been remanded back to the PUCO, the Court preserved the most important elements.

There is significant evidence demonstrating that the prices customers are paying now under the RSPs are less costly than those that would result from market-based prices. According to the U.S. Department of Energy, customers in states with deregulated electricity paid 30 percent more last year than customers in regulated states. Recent events in states including Maryland, where prices increased 72 percent, and Illinois, where prices increased 55 percent, also support this point.

The legislation before you is a sensible balance between regulation and competition as it provides utilities with the option of pursuing either a competitive market pricing plan or an electric security plan. The legislation ensures the predictability of reasonable energy prices and serves as a catalyst for attracting energy jobs of the future to our state through an Ohio advanced portfolio standard. The legislation also builds upon the existing state policy by ensuring that consumers and shareholders share the benefits of and responsibilities for electric utility investment in facilities supplying electric service, and protect at-risk populations when considering the implementation of any new advanced energy technology.

The legislation sets forth an advanced energy portfolio standard so that by 2025 a minimum of 25 percent of the electricity sold in Ohio must be generated from advanced energy technology. The standard recognizes both our need to seize the opportunity of new energy sources and our continuing reliance on Ohio's most valuable natural resource, coal. No less than half of that energy will come from renewable sources, including biomass, wind, solar, etc., and no less than half of that advanced energy must be created in Ohio. Energy efficiency is a central element of the legislation, and utilities must meet at least 25 percent of the growth in electricity demand by achieving power saving efficiencies and achieve no less than 10 percent of the total peak demand of Ohio's electricity in the same way. The PUCO may treat efficiency as a production cost.

You will also find that the legislation features a provision relating to accountability and transparency whereby customers understand what they pay for and what they get. At the same time, the legislation gives the PUCO a fair accounting of the deals utilities offer to certain customers in the course of the commission's proceedings. While proprietary information will remain so with the PUCO and accessible only to parties in the case, it will provide the commission with comprehensive information on all the rates charged to ensure that deliberations result in a fair and just decision.

The legislation provides a mechanism for utilities to better maintain their aging infrastructure through long term comprehensive planning and, in the short term, as single issue rate cases will be permitted under certain conditions. In this way, Ohio's electric power plants, transmission lines and distribution networks that are showing their age can be updated and modernized. The legislation also allows for cost based recovery for new electric generation to be built in the state based upon need.

The legislation calls upon the Ohio Air Quality Development Authority to procure electricity for state facilities through pool purchasing, provide lower cost financing for new power generation projects, coordinate state supported energy research and development funds and support the energy efficiency efforts of utilities.

As we stated earlier, this legislation has been carefully crafted with provisions that build upon each other to make a strong package that is important to pass by the end of 2007. This is because the rate stabilization plans will expire at the end of 2008, and sufficient planning time is needed to ensure that the many complicated rules and procedures are in place.

Thank you for the opportunity to appear before you today. We look forward to working with you as you consider this important legislative package that is a comprehensive

approach to the challenges and opportunities of supplying Ohio's electricity, recognizing that reliable, affordable and sustainable electric power is essential to Ohio's future.

Chairman Schuler, if you or members of the committee have questions, we would be happy to answer them.